

# 21<sup>st</sup> century retirement



## Are You Planning an Early Retirement?

As your 62<sup>nd</sup> birthday approaches, the dream of early retirement may be a possibility. From that day on, you may qualify for Social Security retirement benefits. But as attractive as monthly checks may be, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

When reviewing your retirement income, incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To estimate your Social Security benefit amount, go to the Social Security Administration's website at [www.ssa.gov](http://www.ssa.gov) to use the agency's online calculator.

### Go Beyond Social Security

Beyond your Social Security benefits, however, are other major factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from employer-sponsored retirement plans, such as **401(k)s**, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Once you have determined your retirement resources, add up your current living expenses and calculate a rough estimate of how much income you may need during retirement. It is possible to live on less than your pre-retirement income, depending on your lifestyle. If you find that your retirement



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## Retirement: A Community Audition

**a** house once filled with the constant coming and going of a growing family has become quiet. Family visits are now few and far between. The indoor/outdoor maintenance of a home is getting to be more of a hassle than you had anticipated. If this sounds familiar, it may be time to look at your living situation as you prepare for your “golden years.”

At different stages in life, housing concerns can arise regarding location, landscaping, access to community resources, social interaction, and lifestyle consistency. If you have lived in the same home for many years, it may have provided continuity in your community, and may also be paid for by the time you reach retirement. However, its size and upkeep may have been more appropriate at a time in your life when your children were still at home. You can begin to feel isolated in your family home if the location limits your access to social support systems (particularly if life-long friends or family members have moved away).

Although housing needs change as we grow older, shelter, in any form, is always more than mere physical comfort. It is a financial, psychological, and social base, which anchors our sense of stability. For this reason, some people who move to warmer climates early on in retirement later return to the familiarity of their original communities and the proximity of family and friends.

**Retirement communities**, also known as **55+ communities**, have become a viable option to consider for people in similar situations who are thinking about downsizing their homes. These neighborhoods or complexes, which vary from

condominium-style settings to single-family homes, usually require that at least one member of the household be age 55 or older.

This type of community typically offers an independent lifestyle to healthy and active adults who do not require assistance with daily living, as provided at an **assisted living facility (ALF)**. The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have “significant facilities and services designed to meet the physical and social needs of older persons.” This legislation has increased the popularity of such communities for people age 55 and over who do not require assistance with the routine activities of daily living.



### Considerations

Relocation of any kind requires a careful assessment of the possible pros and cons. Before selling your home to move to the newest 55+ community in your area, here are some important considerations:

**Security.** Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. With this added protection, you may feel more comfortable in your surroundings.

**Recreation.** With people living longer, retirement can be an active and fulfilling phase of life. Depending on the size, location, and affordability, some retirement communities offer world-class amenities that can include a clubhouse with a sports and billiards room, fitness center, outdoor pool, as well as tennis and bocce courts. Many have a recreation center that organizes group activities for residents, such as movie nights, lectures, day trips, and dinner parties.

**Maintenance.** Although you may have once considered mowing the lawn and pulling weeds pleasurable pastimes, those same activities may not be as appealing now. Independent living communities typically take care of the landscaping and snow removal, helping residents to enjoy having a yard without maintaining it.

**Costs.** The services provided by retirement communities come at a cost that must be considered in addition to typical homeowners' expenses. Usually, there are entrance fees and monthly maintenance costs (similar to condo fees), which increase your purchase price and/or monthly bills.

**Limited socialization.** While many people consider a 55+ active community's lifestyle an advantage, residents without readily available transportation may view the prospect of being surrounded by the same group of people as socially confining.

Determining where you want to live in retirement is a decision that requires some serious thought. Whether you choose to stay in your home, look into various 55+ independent living communities, or choose to explore other living arrangements, it is important that you plan ahead, and are comfortable with your choice. ■

## Baby Boomers Step Up Retirement Planning

While members of the baby boom generation have expressed declining levels of confidence in their ability to save for retirement over the past several years, the shares of boomers who report saving and setting goals for retirement have been increasing, according to a study recently released by The Insured Retirement Institute (IRI).

The report's findings were based in part on a survey of 800 Americans aged 51 to 67 conducted in January 2014. The study found that since 2011, when IRI first began tracking boomers' retirement expectations, the percentage of boomers showing high levels of confidence in their financial preparations for retirement declined from 44% in 2011 to 35% in 2014, while the percentage of boomers who said they are confident they will have enough money to live comfortably throughout their retirement years decreased from 37% in 2011 to 33% in 2014.

In addition, 25% of the boomers surveyed in 2014 said they had postponed their plans for retirement during the past year, and 28% said they plan to retire at age 70 or above. The results further showed that while 80% said they have retirement savings, 10% reported having prematurely withdrawn savings from a retirement plan during the past year, and only 48% indicated they have \$250,000 or more saved for retirement.

Researchers pointed out however, that boomers are beginning to express optimism that their financial situation will improve: 42% of respondents surveyed said they expect their situation to improve in five years, compared with 33% in 2013. The survey also showed that 55% of boomers have calculated a retirement savings goal, up from 50% in 2013; and that of those calculating a retirement savings goal, 76% are factoring in the cost of health care. Moreover, the respondents who reported planning for retirement with the help

of a financial advisor in 2014 were more than twice as likely to say they are highly confident in their retirement plans than those planning for retirement on their own.

Meanwhile, 75% of the boomers surveyed indicated that tax deferral is an important feature of a retirement investment, and nearly 40% said they would be less likely to save for retirement if tax incentives for retirement savings, such as tax deferral, were reduced or eliminated.

"One of the most striking developments since we began this research series is the decline in boomers who did not know when they would retire," IRI president and CEO Cathy Weatherford said. "That number has been cut in half. While the research shows that they are deciding to retire later in life, the important thing is that they are grappling with important aspects of retirement planning and beginning to develop a clearer picture of where they are and where they intend to be." ■

## What Is Vesting?

Vesting refers to an employee's entitlement to funds contributed to a qualified, employer-sponsored retirement plan. An employee's contributions—and any earnings on these contributions—are fully vested from his or her start in the plan. An employer's matching contributions, on the other hand, may vest according to a schedule set by the employer, as specified in the plan document and following applicable regulations. Therefore, an employer can arrange

his or her contributions to follow a vesting schedule that rewards loyalty by fully vesting plan participants after a specified number of years.

For plans established after 2002, employer contributions must vest 100% after three years of service, or within six years, beginning at 20% after two years of service and then increasing 20% annually. Plans begun before 2002 must permit 100% vesting after five years of service,

or within seven years, beginning at 20% after three years and then increasing 20% annually. Different vesting requirements apply to certain "top-heavy" plans. While minimum vesting requirements must be met, an employer may choose to allow employees access to their full benefits on an accelerated schedule. Further, an employee who reaches normal retirement age (NRA) is generally entitled to 100% vesting. ■

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funds will be insufficient, explore the possibilities of selling your home, and moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction.

### Other Considerations

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of extending private health coverage until you reach the **Medicare** eligibility age. It is also important to prepare for medical costs in retirement, including potential long-term care needs. Typically, many people underestimate the cost of long-term care and overestimate the funding that will be available through public programs and private health insurance. In reality, Medicare only covers short-term care. It may also cover some nursing home or assisted living costs, but only for skilled care that is deemed medically necessary for the duration of an illness, usually limited to 100 days following a three-day hospital stay.

Consequently, Medicaid has become the primary source of public funding for long-term care.<sup>1</sup> But,

because it is a government program designed to help those in financial need, individuals must “spend down” their personal assets and meet the Federal poverty guidelines before qualifying for assistance.

However, **long-term care insurance** is an alternative that can help cover extended care expenses before you or a loved one becomes eligible for Medicaid. Policies vary, but in general, they provide a daily, set amount of coverage that can be used in a number of ways. This type of insurance may help cover the expenses of nursing homes, assisted living facilities, adult day health programs, and/or at-home care. The cost of coverage is typically based on your age, current health status, and specific policy features, such as scope of coverage, levels of care, and duration of benefits.

### Retirement Checklist

To begin preparation for retirement, read the following statements. If you have given careful consideration to the task, check it off.

- I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- I have determined which of my expenses may be lower after I retire and which may be higher.
- I have determined how much I can expect from Social Security, veteran's benefits, and pension plans.
- I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- I have reviewed my insurance policies to ensure that they meet my present and future needs.
- I have organized a strategy to pay off my large bills and debt before retirement.

### Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may help improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with Social Security benefits, is enough to meet your projected retirement expenses, you may want to focus on making your dream of an early retirement a reality. ■

<sup>1</sup>“Medicaid and Long-Term Care Services and Supports.” June 2012. Kaiser Commission on Medicaid Facts. Web. 26 July 2012. <http://www.kff.org/medicaid/upload/2186-09.pdf>

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